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REDACTED - FOR PUBLIC INSPECTION

December 8, 2016

VIA ECFS

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
Office of the Secretary
445 12th Street SW
Washington, DC 20554

RE: REQUEST FOR CONFIDENTIAL TREATMENT
Panhandle Telephone Cooperative, Inc.
Petition for Extraordinary Retirement Pursuant to Sections 32.2000(g)(4) and (g)(5)

Dear Ms. Dortch:

Panhandle Telephone Cooperative, Inc. ("Panhandle") submits the enclosed Petition for Extraordinary Retirement Pursuant to Sections 32.000(g)(4) and (g)(5) of the Federal Communications Commission's ("FCC" or "Commission") rules ("Petition"). For the reasons detailed below, Panhandle seeks confidential treatment of certain information contained in its Petition. Panhandle concurrently is filing a redacted version of the Petition via the FCC's electronic comment filing system ("ECFS") that contains no confidential information. It is hereby submitting an unredacted version of the filing, which it wishes to be withheld from public inspection.

Pursuant to Section 0.459(b) of the Commission's rules, the following is a statement of the reasons for withholding the information that has been redacted in the ECFS-filed version of the Petition.

(1) Identification of the specific information for which confidential treatment is sought:

The specific information for which confidential treatment is sought is the information that has been redacted in the publicly filed version of the Petition, which is enclosed along with this request. It is cost information and accounting journal entries related to certain network equipment purchased by Panhandle.

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(2) Identification of the Commission proceeding in which the information was submitted or a description of the circumstances giving rise to the submission:

Panhandle was forced to prematurely retire its regulated fixed wireless local loop network due to its LTE core host provider ceasing operations. In order to maintain both voice and broadband services for the affected customers, Panhandle invested in new fixed wireless equipment that is compatible with the network of its new LTE core host provider. Through its Petition, Panhandle seeks an extraordinary retirement of its old fixed wireless network so that it may recover the undepreciated portion of that original network investment. Panhandle deployed the fixed wireless network due to cost considerations and utilizes it to provide services supported by the Universal Service Fund where wireline facilities are not available and/or are cost prohibitive.

(3) Explain the degree to which the information is commercial or financial, or contains a trade secret or is privileged:

The information concerns the costs that Panhandle incurred for network equipment and the related accounting journal entries for those costs. Some of this information indicates the contracted vendor prices that Panhandle paid for network equipment, which is subject to nondisclosure agreements.

(4) Explanation of the degree to which the information concerns a service that is subject to competition:

The cost information relates to network equipment that is used for the provision of voice and broadband services. Panhandle faces competition for both voice and broadband service.

(5) Explanation of how disclosure of the information could result in substantial competitive harm:

If competitors had access to this information, it would enable them to determine the cost of network equipment to Panhandle from its vendors, which would provide the competitors with insight into Panhandle's pricing decisions. In addition, the disclosure of this information would harm Panhandle's relationship with the vendors, hindering its ability to negotiate prices for network equipment. This could lead to higher costs to Panhandle and thus its ability to compete.

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(6) Identification of any measures taken by the submitting party to prevent unauthorized disclosure:

Panhandle has continually treated the redacted information as confidential and carefully controls the information to protect it from competitors. Access to the information is limited to employees that require it and to non-employees with confidentiality obligations such as lenders, consultants, auditors, and attorneys.

(7) Identification of whether the information is available to the public and the extent of any previous disclosures of the information to third parties:

The redacted information is not generally available to the public and third-party access is limited as described in (6) above. Panhandle instructs employees not to disclose outside the company cost information such as that involved in this request.

(8) Justification of the period during which the submitting party asserts that material should not be available for public disclosure:

Panhandle requests that the redacted information be withheld from public disclosure indefinitely. Confidential treatment should be afforded the materials as long as the network cost information would enable competitors to gain insight into Panhandle's pricing decisions. At the very least, confidential treatment must be afforded the materials for the duration of the nondisclosure agreements with the equipment vendors.

(9) Any other information that the party seeking confidential information treatment believes may be useful in assessing whether its request for confidentiality should be granted:

Exemption 4 of FOIA shields from public disclosure commercial or financial information from a person that is privileged or confidential. Based on the responses provided above, the information in question satisfies this test.

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This cover letter includes no confidential information and the text is the same in both the non-redacted and redacted versions except for the confidentiality markings.

Please contact me if you have any questions.

Sincerely,

<u>*/s/* Chad Duval</u>
Chad Duval
National Practice Leader
Communications and Media Practice
MOSS ADAMS LLP
Authorized Representative of Panhandle Telephone Cooperative, Inc.

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Panhandle Telephone Cooperative, Inc.

SHAWN HANSON
Chief Executive Officer

December 8, 2016

Mr. Matthew Del Nero
Bureau Chief
Wireline Competition Bureau
Federal Communications Commission
445 12th Street SW
Washington, DC 20554

Panhandle Telephone Cooperative, Inc.
Petition for Extraordinary Retirement Pursuant to Section 32.2000(g)(4) and (g)(5)

Panhandle Telephone Cooperative, Inc. ("Panhandle") hereby requests that the Federal Communications Commission ("FCC" or "Commission"), pursuant to Section 32.2000(g)(4)[1] of its rules, grant this petition to record the journal entries described herein to complete an extraordinary retirement of its fixed wireless local loop network, effective December 31, 2016.[2] Specifically, Panhandle requests approval for a journal entry to credit Account 3212 – Accumulated Depreciation,[3] in the amount of [redacted], and a corresponding journal entry to debit Account 1438[4] -- Deferred Maintenance and Retirements. These journal entries represent the combined effect of the retirement of the fixed wireless local loop network from Account 3212-- Accumulated Depreciation, and the associated cost of removal and salvage value recorded. Panhandle requests that the extraordinary retirement be amortized over five years, or [redacted] per year, beginning with calendar year 2017 and ending in calendar year 2021.

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[1] 47 C.F.R. § 32.2000(g)(4).

[2] Panhandle will have fully retired the assets as of December 31, 2016. An effective date of December 31, 2016 will allow Panhandle to maintain consistent cost recovery without any delay or double recovery in any given year and allows the amortization to take place in calendar years 2017 through 2021.

[3] *See* 47 C.F.R. § 32.3100.

[4] *See* 47 C.F.R. § 32.1438.

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I. Background

Panhandle is a rural, rate-of-return regulated Incumbent Local Exchange Carrier ("ILEC") operating in Oklahoma (Study Area Code 432016) serving approximately 11,000 access lines in the Oklahoma panhandle. Pursuant to Section 32.11[5] of the FCC's Part 32 Uniform System of Accounts ("Part 32"),[6] Panhandle is a Class B company with annual revenues from regulated telecommunications operations that are less than the indexed revenue threshold. Panhandle is a Cost Company that participates in the National Exchange Carrier Association, Inc. ("NECA") Common Line Pool and is an issuing carrier in NECA Tariff F.C.C. No. 5 and bills interstate common line charges pursuant to that tariff. Panhandle exited the NECA Traffic Sensitive Pool in 2015 and filed Panhandle Telephone Cooperative, Inc. Tariff F.C.C. No. 1 and bills interstate traffic sensitive charges pursuant to the rates in that tariff.

In 2012, Panhandle deployed a wireless local loop network to deploy both voice and broadband services to customers in remote areas of its study area utilizing LTE technology. This deployment not only provided voice and broadband services to new customers for the first time, it also provided an upgrade to aging copper loop facilities that were experiencing extensive troubles and were incapable of providing broadband services. Commercial service commenced in June 2012 with 23 customers and has grown to more than 940 customers as of August 2016.

Panhandle initially developed a fiber based local loop design to serve these areas in 2010 at an overall cost of greater than [redacted], which was replaced in favor of an LTE solution. The investment in the LTE equipment was initially estimated at approximately [redacted] and the total investment recorded at the peak was approximately [redacted]. Deploying the fiber based network would have resulted in an average investment of approximately [redacted] per customer served (based on 940 customers as of August 2016).This is far greater than the [redacted] per location Capital Investment Allowance for universal service-supportable loop plant investment recently calculated for Panhandle.[7] The LTE network produced an average investment per customer served of [redacted], far lower than both the fiber based design and the Capital Investment Allowance for Panhandle. This was clearly a very prudent and cost efficient investment relative to the alternative, given that the investment would be supported through universal service funding.

In order to make the LTE network feasible, Panhandle first purchased two blocks of 700 MHz spectrum from its affiliate, Panhandle Telecommunication Systems, Inc., at a net book value of [redacted] in 2011. In addition, in 2011, Panhandle joined the [redacted]. Participation in the [redacted] provided Panhandle with discount purchasing power from equipment vendors and access to the [redacted]. The [redacted] was an LTE network core router, which provided switching and routing functions for both voice and broadband traffic on the LTE network. In October 2015, [redacted] informed member companies that it would cease operations and that they would need to find alternate switching and routing capabilities following a phased turn down of the [redacted] network.

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[5] *See* 47 C.F.R. § 32.11.

[6] *See* 47 C.F.R. § 32.

[7] On October 3, 2016 the Universal Service Administrative Company released illustrative results of the application of the Capital Investment Allowance, including documentation of the methodology used. These documents can be found at http://www.usac.org/hc/tools/default.aspx.

As a result of the phase down of the [redacted] network, Panhandle was forced to find an alternate solution for serving these wireless customers. Throughout 2015 and 2016, Panhandle worked diligently to find an appropriate affiliate partnership to share the cost of the network core and to ensure that there was no disruption of service to existing customers. Panhandle was able to enter an agreement with United Wireless to utilize their LTE network core. Doing so required that Panhandle replace all of its existing [redacted] equipment with [redacted] equipment, at a total cost of approximately [redacted], but with fewer cell sites and lower annual maintenance fees. The average investment per customer for the [redacted] equipment was approximately [redacted], far lower than Panhandle's Capital Investment Allowance and the projected fiber based investment to serve these customers, even when combined with the original investment in the [redacted] equipment.

At the end of August 2016, Panhandle completed the orderly conversion of all customers from the [redacted] network to the United Wireless [redacted] network. All existing [redacted] equipment is scheduled to be retired in phases through the end of 2016. This network is the most cost effective and efficient means of deploying voice and broadband facilities to customers in these remote and sparsely populated areas of the Oklahoma panhandle.

II. Accounting Summary

Panhandle invested in the [redacted] LTE network over five years, starting in 2011 and the last investment was made in 2015, peaking at [redacted] as of the end of 2015, with accumulated depreciation of [redacted]. In July and August 2016 Panhandle made ordinary retirements of [redacted], leaving a remaining investment of [redacted]. In addition, Panhandle incurred a net cost of removal of [redacted] for this ordinary retirement. The accounting entries for this equipment are summarized below for the period January through the end of August 2016, the date that the [redacted] network was turned down.

Account # Description	2231.4000	3122.3140
2231.4000: Radio Systems – Wireless Local (1/1/16 Balance)	[redacted]	
3122.3140: Radio Systems – Wireless Local (1/1/16 Balance)		[redacted]
6560.1000: Radio Systems – Wireless Local (1/1/16 – 8/31/16)		[redacted]
2231.4000: Radio Systems – Wireless Local (Ordinary Retirement)	[redacted]	
3122.3140: Radio Systems – Wireless Local (Ordinary Retirement)		[redacted]
3122.3140: Radio Systems – Wireless Local (Net Cost of Removal)		[redacted]
Balance as of August 31, 2016	[redacted]	[redacted]

Panhandle is in the process of retiring the remaining [redacted] LTE investment, with the exception of [redacted], which represents equipment that will continue to be utilized with the new [redacted] network. These retirements are taking place in phases from September through December of 2016, as all necessary documentation is completed to retire each piece of equipment. The proposed retirement entries for this equipment in September through December are summarized below.

Account # Description	2231.4000	3122.3140
2231.4000: Radio Systems – Wireless Local (9/1/16 Balance)	[redacted]	
3122.3140: Radio Systems – Wireless Local (9/1/16 Balance)		[redacted]
6560.1000: Radio Systems – Wireless Local (9/1/16 – 12/31/16)		[redacted]
2231.4000: Radio Systems – Wireless Local (Extraordinary Retirement)	[redacted]	
3122.3140: Radio Systems – Wireless Local (Extraordinary Retirement)		[redacted]
3122.3140: Radio Systems – Wireless Local (Cost of Removal)		[redacted]
Balance as of December 31, 2016	[redacted]	[redacted]
Net Book Value		[redacted]

For the equipment that will be left in service at the end of 2016, Panhandle has calculated the estimated depreciation reserve associated with this investment at [redacted] based on the vintage of the assets. This produces a net book value of [redacted] for the equipment that will be left in service, which will be depreciated in the normal course of business and should not be included in the extraordinary retirement.

Account # Description	2231.4000	3122.3140
2231.4000: Radio Systems – Wireless Local (Left in Service)	[redacted]	
3122.3140: Radio Systems – Wireless Local (Left in Service)		[redacted]
Net Book Value (Left in Service)		[redacted]

In addition, Panhandle has estimated that it will realize a salvage value on the extraordinary retirement of [redacted]. As a result, the extraordinary retirement results in a depreciation shortfall of [redacted], which is the amount that Panhandle is requesting to amortize over a five-year period. This produces an annual amortization of [redacted]. The calculation of this depreciation shortfall is as follows.

Net Book Value – Total	[redacted]
Net Book Value – Left in Service	[redacted]
Salvage Value – Extraordinary Retirement	[redacted]
Total Depreciation Shortfall	[redacted]
Annual Amortization – 5 Years	[redacted]

III. The Panhandle [redacted] LTE Network Investment Meets the Criteria of Section 32.2000(g)(4) for Extraordinary Retirement

Part 32 defines an extraordinary retirement as "plant retired for nonrecurring factors not recognized in depreciation."[8] Section 32.2000(4)(i) of the Commission's rules identifies three criteria that must be met in order for a retirement to be considered extraordinary:

> (4) Plant retired for nonrecurring factors not recognized in depreciation rates.
> (i) A retirement will be considered as nonrecurring (extraordinary) only if the following criteria are met:
> (A) The impending retirement was not adequately considered in setting past depreciation rates.
> (B) The charging of the retirement against the reserve will unduly deplete that reserve.
> (C) The retirement is unusual such that similar retirements are not likely to recur in the future.

With respect to the first criterion, Panhandle's depreciation rates were established prior to the investment in the [redacted] LTE equipment, so the retirement of these assets could not have been considered in setting depreciation rates at that time. In addition, because of the untimely and unplanned discontinuance of the [redacted] network, there was no opportunity for Panhandle to adjust depreciation rates to accommodate for the early retirement of the assets. Thus, the first criterion is met in that the retirement was not considered in setting past depreciation rates.

With respect to the second criterion, the retirement of the [redacted] LTE equipment produces a significant debit balance in the Accumulated Depreciation account and a depreciation shortfall of [redacted] associated with the extraordinary retirement, as outlined above. Absent the extraordinary retirement, Panhandle would be required to record the depreciation shortfall as a non-operating expense in 2016, resulting in a cost recovery shortfall on these regulated assets. Thus, the second criterion is met in that the charging of the retirement against the reserve will unduly deplete that reserve.

With respect to the third criterion, the early and nearly total retirement of the [redacted] LTE equipment is not likely to recur in the future. Panhandle had no way of knowing that [redacted] would cease operations in an untimely manner and that it would be forced to deploy an alternate network in order to transition customers to the United Wireless network. Panhandle has no reason to believe that the United Wireless network will face a similar fate to that of [redacted] and has every confidence that the [redacted] network will be in service for the entire depreciable life of the assets. As a result, the future retirement of the [redacted] network is a planned event that will not trigger another extraordinary retirement. Thus, the third criterion is met in that similar retirements are not likely to recur in the future.

As a result of the foregoing, Panhandle believes that the retirement of the [redacted] LTE equipment meets the three criteria established in Section 32.2000(g)(4)(i) of the Commission's rules.

IV. There is an Immediate Need to Replace the [redacted] LTE Equipment

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[8] *See* 47 C.F.R. § 32.2000(g)(4).

As previously discussed, the [redacted] LTE equipment was utilized to provide fixed wireless local loop to deliver both regulated voice and broadband services to end users in remote and sparsely populated areas of Panhandle's study area. As of the end of August 2016, Panhandle provided service to more than 940 customers utilizing this equipment. Absent the immediate replacement of this equipment, these customers would no longer have access to voice or broadband service from Panhandle and there are no competitive alternatives available in the area. As a result, Panhandle had no option but to move expeditiously to replace the [redacted] LTE equipment prior to [redacted] ceasing operations.

V. <u>An Effective Date of December 31, 2016 Allows for Simplification of Financial Reporting</u>

As mentioned above, Panhandle is requesting that the extraordinary retirement be made effective as of December 31, 2016. Such treatment would allow the impact of the extraordinary retirement to be included in Account 1438 – Deferred Maintenance and Retirements for purposes of Part 36 and Part 69 separations. The annual amortization of [redacted] over five years will result in the complete amortization of the extraordinary retirement as of December 31, 2021.

VI. <u>Conclusion</u>

Based on the foregoing, Panhandle has met the criteria outlined in Section 32.2000(g)(4) for approval from the Commission for an extraordinary retirement and to make the journal entries reflected in this application, effective December 31, 2016. Additionally, an amortization period of five years (from 2017 through 2021) is appropriate, given that it approximates the remaining depreciable life of the assets being retired. Finally, the circumstances of the extraordinary retirement support the Commission's approval of the inclusion of the depreciation shortfall in Account 1438 – Deferred Maintenance and Retirements, net of amortization, pursuant to the Commission's rules.

Accordingly, Panhandle respectfully requests authorization from the Commission to record the extraordinary retirement as described above.

Sincerely,

Shawn Hanson

Shawn Hanson
CEO
Panhandle Telephone Cooperative, Inc.

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(580) 338-2556

cc: John Hunter, Chief Policy Counsel, Pricing Policy Division, WCB